

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 INT-08 SCEM-02 SPC-03 AID-20 EB-11

NSC-10 RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01

CEA-02 L-03 H-03 CIAE-00 COME-00 FRB-02 INR-10

NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 IGA-02 AGR-20

TAR-02 DODE-00 PA-04 USIA-15 PRS-01 DRC-01 /192 W

----- 017926

R 170113Z DEC 73

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 1613

INFO AMEMBASSY TOKYO

UNCLAS SEOUL 8451

E.O. 11652: N/A

TAGS: ECON, KS

SUBJECT: NEW ECONOMIC STABILITY MEASURES

REF: SEOUL 8229

SUMMARY: KOREAN GOVERNMENT HAS REACTED TO INFLATIONARY
THREAT OF OIL CRISIS AND INDUSTRIAL RAW MATERIAL SUPPLY
SHORTAGES WITH SERIES OF NEW ECONOMIC STABILITY MEASURES.
AFTER AUTHORIZING SUBSTANTIAL PRICE INCREASES FOR OIL
AND OTHER PRODUCTS SUBJECT TO HOARDING, GOVERNMENT
REINSTITUTED PRICE FREEZE ON 63 CONSUMER AND INDUSTRIAL
NECESSITIES. A TEMPORARY FINANCIAL ASSISTANCE SCHEME
FOR RAW MATERIAL IMPORTS HAS BEEN DEVISED.
BANK INTEREST RATES ON 90 AND 180 DAY SAVINGS DEPOSITS
HAVE BEEN RAISED. TO REDUCE INFLUENCE OF EXPORT EARNINGS
INFLOW ON DOMESTIC MONEY SUPPLY, BANKS ARE NOW AUTHORIZED
TO MAINTAIN INTEREST-BEARING 90 AND 180 DAY U.S. DOLLAR
ACCOUNTS FOR EXPORTERS. ALTHOUGH ECONOMIC PLANNING MINISTER
EARLIER SAID HEAVY AND CHEMICAL INDUSTRY PROMOTION PLANNING
REMAINS UNCHANGED, ON ASSUMPTION THAT OIL SUPPLY CRISIS FOR
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KOREA IS SHORT TERM, FINANCE MINISTER ON DECEMBER 13

ADVISED BUSINESS LEADERS THAT INVESTMENT WOULD BE DE-EMPHASIZED AND TIGHTER MONEY POLICY WOULD PREVAIL IN FIRST PART OF 1974. IN ADDITION TO ABOVE STEPS, FUEL ALLOCATION MACHINERY HAS BEEN IMPROVED. END SUMMARY.

1. PRICE MEASURES: BETWEEN DECEMBER 1 AND 5, ROKG AUTHORIZED PRICE INCREASES FOR PETROLEUM PRODUCTS (REFTEL), ELECTRIC POWER, GLASS, FERTILIZER, ANIMAL FEEDS, STARCH, SUGAR, MILK AND NYLON YARN. INCREASES AVERAGED 23 PER CENT, AND ARE EXPECTED TO RAISE WHOLE-SALE PRICE INDEX BY THREE PERCENTAGE POINTS. ON DECEMBER 10, PRICES ON 63 ITEMS, INCLUDING ABOVE ONES, WERE FROZEN, AND ANY INCREASE MADE SUBJECT TO GOVERNMENT'S PRIOR APPROVAL. ITEMS CONSIST OF BASIC FOODS, SOME CLOTHING AND OTHER DAILY NECESSITIES, FUELS AND POWER, SEVERAL KEY AGRICULTURAL AND INDUSTRIAL RAW AND INTERMEDIATE MATERIALS, CONSTRUCTION GOODS, MOST METALS, AND SOME MACHINERY. SELLERS WHO INCREASE PRICES WITHOUT APPROVAL WILL BE DENIED BANKING AND FINANCIAL SUPPORT AND HIT BY EXCESS PROFITS TAXES. CONSUMER AND WHOLESALE PRICE INDICES ARE EXPECTED TO JUMP 5 PER CENT IN DECEMBER. WE ESTIMATE END OF DECEMBER WHOLESALE PRICE INDEX WILL EXCEED DECEMBER 1972 LEVEL BY ABOUT 14.5 PER CENT, WHILE CONSUMER INDEX GAIN WILL BE CLOSE TO 10 PER CENT. MOST OF RECENT INCREASES REPRESENT IMPORTED INFLATION. GOVERNMENT FREEZE IS TO EMPHASIZE IMPORTANCE OF PRICE STABILITY EFFORTS.

2. RESOURCE PROCUREMENT ASSISTANCE: FROM DECEMBER 6 THROUGH FEBRUARY 28, 1974, IMPORTERS OF CRUDE OIL, RAW COTTON, FOOD GRAINS, INTERMEDIATE PETROCHEMICALS AND OTHER URGENT RAW MATERIALS MAY OBTAIN UP TO 180 DAY COMPLETE COVERAGE LOANS AT PRICE RATE OF 15.5 PER CENT P.A. BANK OF KOREA WILL FUND COMMERCIAL BANK NEEDS FOR THIS SPECIAL PROGRAM. DURING SAME PERIOD, IMPORTS OF THESE MATERIALS ON D/A, USANCE OR FOREIGN LOANS WILL BE PERMITTED IN SPITE OF FOREIGN EXCHANGE BUDGET RESTRICTIONS. FOR THESE MATERIALS, IMPORT GUARANTEE DEPOSIT RATE IS LOWERED TO 10 PER CENT FOR AT-SIGHT IMPORTS, AND TO ZERO FOR D/A AND USANCE IMPORTS. OBJECT OF SCHEME IS TO REMOVE CREDIT OBSTACLES TO IMPORTS AND STOCKPILING. OTHER STEPS INCLUDE REORGANIZATION WITHIN EPB TO ESTABLISH A RESOURCES BUREAU CHARGED WITH OVERSEEING OVERALL FOOD AND INDUSTRIAL RESOURCE SUPPLY

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SITUATION, AND ANNOUNCEMENT THAT TARIFFS WILL BE APPLIED FLEXIBLY TO EASE BURDEN ON PRODUCERS.

3. MONETARY MEASURES: IN FIRST ELEVEN MONTHS OF 1973, MONEY SUPPLY ROSE 40 PER CENT AND DOMESTIC CREDIT WAS UP 26 PER CENT. WHILE THESE INCREASES ARE RELATED TO GNP GROWTH OF 29 PER CENT IN CURRENT PRICES IN FIRST THREE QUARTERS (COMPARED TO SAME PERIOD 1972) HOARDING AND OTHER DEMAND

INCREASES SINCE OIL CRISIS BEGAN HAVE INTENSIFIED NORMAL SEASONAL HIGH CASH DEMAND AT YEAR END. SOME REPORTS INDICATE A NEW RESURGENCE OF CURB MARKET ACTIVITY. ALSO, THE AMAZING EXPORT INCREASE, UP 87 PER CENT IN FIRST NINE MONTHS, HAS ADDED TO FOREIGN EXCHANGE RESERVES AND MONEY SUPPLY. IN ORDER TO RELIEVE PRESSURES AND ENCOURAGE SAVINGS, ROKG INCREASED INTEREST RATE ON 90-DAY TIME DEPOSITS TO 9 PER CENT (VICE 6 PER CENT) AND ON 180 TIME DEPOSITS TO 10.8 PER CENT (VICE 8.4 PER CENT) FROM DECEMBER 10 THROUGH JANUARY 31, 1974. FROM DECEMBER 8, REGISTERED EXPORTERS ARE ALSO ALLOWED TO MAINTAIN 90 OR 180 DAY U.S. DOLLAR ACCOUNTS IN FOREIGN EXCHANGE BANKS IN KOREA AT THESE INTEREST RATES, TO REDUCE DOMESTIC MONEY SUPPLY. FINANCE MINISTER HAS ANNOUNCED THAT BANK LENDING RATES WILL NOT BE INCREASED AND THAT CREDIT POLICIES WILL NOW FAVOR SUPPLIES OF ESSENTIAL MATERIALS (INCLUDING COAL) RATHER THAN EQUIPMENT IMPORTS FOR CAPACITY EXPANSION.

4. FISCAL MEASURES: THE GOVERNMENT HAS INDICATED THAT BUDGET EXPENDITURES WILL BE RESTRAINED DURING THE FIRST PART OF 1974 IN VIEW OF ECONOMIC UNCERTAINTIES. CARRYING ON A KOREAN FISCAL TRADITION IN TIMES OF SHARP PRICE RISES, THE FINANCE MINISTRY HAS ANNOUNCED STRENGTHENED APPLICATION OF PROPERTY SPECULATION CONTROL TAX LAW. A TAX ON "UNFAIR" PROFITS IS ALSO UNDER CONSIDERATION.

5. COORDINATION AND ENFORCEMENT: VICE MINISTERS FROM THE ECONOMIC MINISTERIES MEET EACH MORNING AS A PRICE POLICY COMMITTEE TO REVIEW THE SITUATION, INVESTIGATE ANY INCREASES AND AGREE UPON ANY ENFORCEMENT ACTIONS TO BE UNDERTAKEN BY THE MINISTRY HAVING JURISDICTION OVER ANY SPECIFIC PROBLEM. A SIMILAR ENERGY COMMITTEE IS NOW HELD AT THE CLOSE OF EACH DAY, THUS PROVIDING THE MEANS FOR CLOSE AND CONSTANT COORDINATION OF THE GOVERNMENT'S PROGRAMS.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC STABILITY, PETROLEUM, SUPPLIES, PETROLEUM PRODUCTS, GOVERNMENT BUDGET, PRICE CONTROLS, BANK RATES, RATIONING, MONEY SUPPLY, WHOLESALE PRICE INDEXES, RETAIL PRICE INDEXES
Control Number: n/a
Copy: SINGLE
Draft Date: 17 DEC 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973SEOUL08451
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: SEOUL
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731220/aaaaaovm.tel
Line Count: 155
Locator: TEXT ON-LINE
Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: SEOUL 8229
Review Action: RELEASED, APPROVED
Review Authority: kelleyw0
Review Comment: n/a
Review Content Flags:
Review Date: 07 DEC 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <07-Dec-2001 by williad>; APPROVED <18 MAR 2002 by kelleyw0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: NEW ECONOMIC STABILITY MEASURES
TAGS: ECON, KS
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005